

VZCZCXYZ0003
PP RUEHWEB

DE RUEHKB #0086/01 0311028
ZNY CCCCC ZZH
P 311028Z JAN 08
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC PRIORITY 4680
INFO RUCNCIS/CIS COLLECTIVE PRIORITY
RUEHAK/AMEMBASSY ANKARA PRIORITY 2608
RUEHUP/AMEMBASSY BUDAPEST PRIORITY 0199
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEAEPA/HQ EPA WASHDC

C O N F I D E N T I A L BAKU 000086

SIPDIS

SIPDIS

DEPT PLEASE PASS TO USTDA DAN STEIN
DEPT FOR EEB, EUR/CARC,OES, G
BUDAPEST PLEASE PASS TO SAM KOTIS

E.O. 12958: DECL: 09/10/2017
TAGS: [ECON](#) [SENV](#) [PGOV](#) [PREL](#) [AJ](#)
SUBJECT: AZERBAIJAN: STATE OIL COMPANY COMMITTED TO
ENVIRONMENTAL CLEAN-UP?

Classified By: AMBASSADOR ANNE E. DERSE; REASONS 1.4 (B,D)

11. (C) SUMMARY: In 2006 President Aliyev issued a decree mandating a five-year effort to clean up the notoriously polluted Azerbaijani environment. As part of these efforts, in January 2008 the State Oil Company of Azerbaijan (SOCAR) created a new position, Vice-President for Ecology. The newly appointed SOCAR VP sees his primary goals as both spearheading an effort to clean up the environmental mess caused by over 150 years of oil extraction, but more importantly to inculcate a new mentality in SOCAR that emphasizes preserving the environment while extracting hydrocarbons. It remains to be seen whether he will be able to muster the institutional "buy-in" at SOCAR for his ambitious plans to make it an "environmentally friendly" company. The appointment of a new VP for Environmental issues at SOCAR could be the bureaucratic change necessary to kick the GOAJ's clean-up plan into high gear, as SOCAR controls the resources and money needed to do the job and the Minister of Ecology has had relatively little institutional clout to fulfill its mission. The GOAJ is interested in attracting US environmental goods and services companies to support its environmental clean-up. END SUMMARY.

12. (SBU) In September 2006, President Ilham Aliyev issued Presidential Decree 458 on the "Comprehensive Action Plan on Improving the Environmental Situation in Azerbaijan for 2006-2010." The decree's primary goals were cleaning up the Absheron Peninsula, in particular oil contamination of the land and Baku Bay, and creating facilities for water treatment and sewage throughout the country. The decree named the responsible ministries and agencies, with responsibility shared by Ministry of Ecology (MEC), State Oil Company of Azerbaijan (SOCAR), the Ministry of Emergency Situations (MES) and Azerbaijan Water Company (AzerSu), with the Ministry of Finance and Ministry of Economic Development (MED) assigned primarily financial roles.

SOCAR - An Oil Company with an Environmental Agenda

13. (C) On January 17, Econoffs met with newly-appointed SOCAR VP for Ecology, Mukhtar Babayev, to discuss his goals and plans carrying out his department's mission. With 15 years experience in SOCAR's marketing department, Babayev said that his new role is to coordinate current clean-up activities and write a comprehensive environmental policy. He said that Azerbaijan will need new legislation to establish and enforce

a country-wide environmental policy. Most importantly, Babayev said, he has to change SOCAR's attitude towards the environment, ensuring that it preserves the environment while fulfilling its mission to develop Azerbaijan's hydrocarbon resources. Babayev joked that after his appointment to his new position he told SOCAR First Vice-President for Geology, Geophysics and Field Development Issues Khoshbakht Yusifzade, (the "grand old man" of SOCAR), that they were now "enemies," since Yusifzade wanted to continue "business as usual," whereas Babayev wanted to change the way SOCAR developed its resources. On a broader scale, Babayev said his mission was to "change the mentality" of Azerbaijanis about their responsibilities to preserve the environment.

14. (C) When asked how much money SOCAR would dedicate to its environmental efforts, Babayev did not give a number but instead shifted the conversation to explain how he envisioned spending the money. Babayev said that initially SOCAR should use only its own resources to finance environmental projects, to encourage careful spending and prevent waste. He said he intended to meet with Ecology Minister Bagirov and other GOAJ agencies to coordinate environmental activities. Foreign entities could play an important role, particularly as advisors with specialized expertise. Babayev noted that already SOCAR is discussing environmental proposals with the World Bank and is in the process of trying to establish a "master plan" for cleaning-up the Absheron Peninsula, which 150 years of oil production and the former Soviet chemical industrial complex have devastated. Babayev candidly explained why the "master plan" is his priority -- without an environmental plan that President Aliyev personally approves, he will not have the authority to advocate for and enforce any new legislation or clean-up activities which are sure to encounter strong resistance from powerful elites.

15. (C) Babayev said that in 2007 SOCAR started several projects to improve the situation in the oil fields and offshore to comply with President Aliyev's 2006 decree. In fact, SOCAR has paid for specialized equipment to process and clean-up oil-contaminated waste water and the first unit is already functioning. However, while the activities were enough to meet the May 2008 timeline to show some improvement in the Bibi Heybet oil field, one of Azerbaijan's oldest fields still running with outdated Soviet technology, the efforts were scattershot and an inefficient use of limited environmental funding.

Ministry of Ecology - Sidelined on Environmental Issues

16. (C) In his discussion with Econoffs, Minister of Ecology Husseyn Bagirov alluded to his limited scope of work and power within the GOAJ to effect real change. He explained that his activities are heavily focused on water treatment and sewage, one of the major areas of the President's 2006 decree. The Ministry's new approach for producing clean drinking water is a trial with 50 villages along the Kura River, Bagirov said. Along with a small "clean it where it is" water treatment plant, the MEC provides pipelines to several designated water distribution storage tanks in each village which is more cost-effective than providing piping to each household. For sewage treatment, Bagirov said the ministry purchases and assembles midsize modular sewage treatment plants from Turkey. Seven of eight plants already have been installed on the Absheron Peninsula, Bagirov said. He said the Ministry's budget is primarily spent to purchase the equipment from Turkey (primarily U.S. made, he pointed out) and maintain pumping stations, with small amounts spent on local equipment purchase and labor as well as electricity stabilizing equipment. Separately, he said another smaller project is the MEC's effort to make Azerbaijan more "green," but said he is powerless to do anything to stop the largest ecological problem - overgrazing.

17. (C) The Ministry of Ecology is only one part, Bagirov said, pointing to the World Bank's coordination with other ministries and agencies like SOCAR, Azersu and the MES that

also play a role on environmental issues. He questioned the other agencies' outdated systems and the limited functionality of their efforts, while admitting that his agency had little influence over them and no empowerment to coordinate their efforts. For example, he said he had made a recommendation to the MED on solid waste disposal, but the MED chose another route. When asked, he claimed that President Aliyev thought the environment was important, but said frankly that the Cabinet of Ministers was "not supportive."

18. (C) Minister Bagirov said he would like to see more proposals for equipment and projects from American companies.

He said there had been an American filter and treatment system company working in Azerbaijan that "spoiled the image of American companies," but then noted his disappointment that a proposal from another U.S. company for planting equipment that had been submitted had not won. (Comment: Bagirov again seemed to be alluding to the fact that he has little control and is not the final decision maker on many environmental issues.) He asked Econoff if the USG could help him attract more reputable American companies interested in providing either parts or whole sewage and water treatment plants and equipment. He also pointed to the Blacksmith Institute's report listing Sumgayit as the most polluted place on earth with frustration, admitting that there were serious problems to be resolved but disputing the final findings. Despite his repeated attempts to begin a dialogue, he said, he was frustrated about the lack of response and lack of "constructive" criticism within government circles.

Outside Perspectives

19. (C) Along with small programs from the Norwegians, French, Japanese and Germans, the World Bank currently manages two environmental programs focused on small rural environmental projects and on national parks. The World Bank contributes

approximately 50 percent through grants and credit loans, and the GOAJ contributes the other half, the World Bank's environmental expert Gulhana Hajiyeva said. Beginning with the 2006 Presidential decree, Hajiyeva said the GOAJ has made some improvements through new programs, amendments to legislation, establishing a new SOCAR VP and an environmental management body to coordinate across sectors. However, Hajiyeva said that there was little actual coordination, and that the Ministry of Ecology was limited in what it could do because it had no real authority to enforce compliance with existing rules and regulations. Hajiyev pointed out that the World Bank is dialoguing with the Ministry of Ecology, SOCAR, the Ministry of Emergency Situations, Azersu and Azerenergy on possible projects to rehabilitate the Absheron Peninsula per the President's 2006 decree. The first step would be a environmental impact and feasibility study for our projects: SOCAR - oil contamination land and sea clean-up, MES - decontamination of radioactive waste, Ministry of Ecology - creation of a database and standards, and MED - creating procedures for solid waste and landfills. Hajiyeva said she had been most impressed with SOCAR because it was looking for an overall strategy rather than for individual projects.

110. (C) One of Azerbaijan's environmental NGO's that currently receives much of its funding from American universities and international foundations, EcoCenter, has also seen a surge in financial resources directed towards the environment. Director Arif Islamzadeh said "Programs (the GOAJ's many plans and efforts to-date) look good on paper, and at the moment, the GOAJ has allocated substantial funding for this sector. The problem is, there is no way to check the quality of the implementation. We can only hope." Islamzadeh pointed out that the oil industry has caused much of the pollution on the Absheron, but that today the same industry receives money for planning and implementing clean-up projects, while retaining control over the entire process and reporting to itself. "This is absurd," he said. However, he praised the President's 2006 environmental decree, saying it

was a sign of the GOAJ's resolve to "do something" about the environmental problems. While the government's priorities are generally heading in the right direction, Islamzadeh said, there are many unresolved issues that remain unaddressed and are potential problems for the future.

Opportunities for Training and Commerce

¶11. (U) SOCAR's Babayev was enthusiastic about possible USG cooperation and said he would welcome experts to help him fulfill his mission, to include help with drafting of an environmental action plan (master plan) and new legislation. He also said he would welcome American environmental clean-up companies and would be happy to meet with them personally. Babayev also explained that what had previously been a department of four people dealing with a range of issues would now become an begin dealing exclusively with environmental issues an would have increased staffing. He asked for assistance with training and capacity building, perhaps from the Department of Energy or from the U.S. Trade and Development Agency (USTDA). Minister of Ecology Bagirov also asked for assistance from the USG to help identify American environmental companies interested in working in Azerbaijan.

Comment

¶12. (C) While the reaction to President Aliyev's 2006 environmental decree was unanimously positive, subsequent implementation has been sporadic. The appointment of a new VP for Environmental issues at SOCAR could be the bureaucratic change necessary to kick the clean-up plan into high gear. With only 15 days on the job SOCAR Environment VP Babayev seems enthusiastic and in possession of a clear vision of what he hopes to accomplish, while fully aware of the challenges he will face as he tries to address long-ignored environmental challenges in Azerbaijan's all-important oil and gas industry. Without an environmentally conscious constituency demanding change that he can point to when convincing GOAJ officials of the importance of his work, it remains to be seen if he will provide progress or become sidelined like Minister of Ecology

Bagirov. The Embassy will seek to support GOAJ's environmental efforts, to include seeking training and consultations for VP Babayev and his personnel.

¶13. (C) Recalling that FonMin Mammadyarov had proposed cooperation on environmental matters as a promising new area for bilateral engagement, and given SOCAR VP Babayev's interest in our help to develop a master strategy for clean-up, we would welcome Washington agencies' ideas on how we should engage and support the GOAJ in their their clean-up efforts, to include how to bring Azerbaijan's efforts in this regard to the attention of US firms. END COMMENT.
DERSE